

Message Text

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ACTION EUR-25

INFO OCT-01 ISO-00 SS-20 AID-20 CEA-02 CIAE-00 COME-00

EB-11 EA-11 FRB-02 INR-10 IO-14 NEA-10 NSAE-00 RSC-01

OPIC-12 SPC-03 TRSE-00 CIEP-02 LAB-06 SIL-01 OMB-01

NSC-10 DRC-01 INT-08 SCEM-02 /173 W

----- 071441

R 211709Z DEC 73

FM USMISSION OECD PARIS

TO SECSTATE WASHDC 1465

INFO AMEMBASSY PARIS

LIMITED OFFICIAL USE USOECD PARIS 32661

E.O. 11652: N/A

TAGS: ECON, EFIN, OECD

SUBJECT: EDRC REVIEW OF FRENCH ECONOMY

REF: EDR (73) 24

1. SUMMARY: FRENCH DELEGATION HAD NO SERIOUS PROBLEMS WITH SECRETARIAT DRAFT SURVEY (REFDOC). EDR COMMITTEE EXPRESSED DOUBTS ABOUT OPTIMISTIC VIEWS FRENCH HAD OF THEIR 1974 PROSPECTS, AND IT CRITICIZED FRENCH GOVT FAILURE TAKE SUFFICIENT STEPS REDUCE WAGE-PRICE INFLATION. END SUMMARY

2. INFLATION AND DEMAND MANAGEMENT: FRENCH DELEGATION LED BY MALINVAUD, DIRECTOR PREVISION, SAID 1973 WAS YEAR OF GREAT BOOM (6.2 PERCENT REAL GROWTH GNP), WITH UNFORSEEN EXCESS DEMAND PREVAILING AND CAPACITY RESTRAINTS IN MANY SECTORS. BUDGET POLICY WAS TO BE NEUTRAL BUT IT MOVED INTO SMALL SURPLUS IN 1973. MONETARY POLICY HAD BEEN TIGHTENED AND WITH LESS LIQUIDITY IN BUSINESS SECTOR, IT SHOULD BEGIN TO BITE. REDUCTION VALUE ADDED TAX IN JANUARY HAD SLOWED DOWN CONSUMER PRICES IN EARLY PART

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YEAR, BUT HAD ADDED TO CONSUMER PURCHASING POWER LATER.

ECONOMIC POLICY HAD BEEN CIRCUMSCRIBED BY CHOICES REGARDING RISING PRICES AND NEED TO MAINTAIN HIGH LEVEL EMPLOYMENT. GOVT CHOSE MIDDLE GROUND. EMPLOYMENT WAS IN APPROXIMATE EQUILIBRIUM DURING YEAR, BUT PRICE INCREASED HIGHER THAN EXPECTED BECAUSE: (1) FOOD PRICES DID NOT SLOW DOWN AS EXPECTED; (2) RAW MATERIAL PRICES WERE EXPECTED DECLINE BUT ROSE INSTEAD, AND OIL PRICE HIKES NOW ADD TO THIS PROBLEM; (3) WAGES, PROFITS AND INCOME HAD RISEN FASTER THAN EXPECTED. RECENTLY ANNOUNCED ANTI-INFLATION MEASURES WERE AIMED AT SLOWING DEMAND, PARTICULARLY IN FIRST PART 1974. DEL NOTED REDUCTION CPI BELOW 10 PERCENT PA ONLY A HOPE IN 1974, AND HE ATTRIBUTED TWO-THIRDS OF ACCELERATION IN PRICES IN 1973 TO RISING COST IMPORTS.

3. OIL IMPACT: FRENCH DEL THOUGHT ECONOMY COULD WEATHER 10 PERCENT CUTOIL SUPPLIES FROM 1973 LEVEL (OR 20 PERCENT FROM EXPECTED 1974 REQUIREMENTS) WITHOUT OVERALL REDUCTION IN PRODUCTION, BUT A FEW SECTORS MIGHT BE HIT SOMEWHAT. BEYOND 10 PER CENT CUT, SITUATION WOULD BECOME SERIOUS AND RATIONING WOULD BECOME NECESSARY. FRENCH THOUGHT SUPPLY, WITH DISORDER IN MANY SECTORS, WOULD DECREASE FASTER THAN DEMAND, AND POLICY AIM WOULD BE TO SLOW LATTER SIGNIFICANTLY MORE THAN NOW ENVISIONED. IN RESPONSE US QUESTIONING, FRENCH DEL SAID IF OIL SUPPLIES IN 1974 WERE REDUCED FOR WHOLE YEAR BY 15 PER CENT BELOW 1973 LEVEL, GROWTH ECONOMY WOULD BE REDUCED TO LOW LEVEL; HOWEVER, AND ASSUMPTION OF 15 PERCENT CUT WAS EXTREME. HE ALSO NOTED IF DEMAND FELL, POLICY CHOICE WOULD BE DIFFICULT. ANY ATTEMPT SUPPORT OVERALL DEMAND WOULD RAISE PRICES AND AGGREGATE SOCIAL PRESSURES. THERE WOULD BE NEED FURTHER STRENGTHEN REDISTRIBUTION INCOMES, WHICH ALREADY UNDER WAY SINCE LATE 1960'S. DEL SAID NO STUDIES HAD BEEN DONE ON IMPACT OIL CRISIS ON CONSUMPTION AND INVESTMENT. HE THOUGHT ECONOMY COULD IN SHORT-RUN DRAW ON OIL STOCKS, THERE WAS POSSIBILITY SOME SUBSTITUTION COAL FOR OIL, AND SAVING COULD BE MADE IN HEATING AND GASOLINE CONSUMPTION BY INCREASING INTENSITY OF RATIONING. AS TO 1974 GROWTH PROSPECTS, HE AGREED THEY MIGHT HAVE BE REVISED DOWNWARDS, BUT DIDN'T KNOW HOW FAR. PUBLIC SECTOR: FRENCH COULD NOT LIMITED OFFICIAL USE

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AGREE THAT THIS SECTOR HAD ADDED TO INFLATION IN RECENT YEARS, AND COMMITTEE AGREED LET SECRETARIAT REDRAFT SECTION TO MEET FRENCH OBJECTIONS.

4. BALANCE PAYMENTS: FRENCH DEL EXPECTED 1973 CURRENT ACCOUNT BE IN BALANCE OR IN SLIGHT SURPLUS (0 TO 450 MIL SDR'S). SURPLUS WOULD BE DUE: (1) SURPLUS ON TRADE ACCOUNT LARGER THAN SECRETARIAT'S FORECAST OF 1,100 MIL

SDR'S; (2) DETERIORATION SERVICES ACCOUNT TO SURPLUS OF ABOUT 250 MIL SDR'S; AND (3) DEFICIT IN TRANSFERS, RELATED MAINLY GROWING IMMIGRANTS REMITTANCES, WOULD INCREASE TO ABOUT 1,300 MIL SDR'S. LONG-TERM CAPITAL ACCOUNT HAD UNDERGONE SHIFT DURING 1973, WITH REMOVAL RESTRICTONS ON INVESTMENT BY RESIDENTS IN FOREIGN SECURITIES. LONG-TERM CAPITAL DEFICIT WOULD INCREASE IN 1973 TO ABOUT 1,000 MIL SDR'S, RELATED MAINLY TO FRENCH RESIDENTS' INVESTMENTS IN FOREIGN PORTFOLIOS AND TO DECREASE IN NON-RESIDENT PURCHASES FRENCH SECURITIES. SHORT-TERM CAPITAL ACCOUNT WOULD BE IN SUBSTANTIAL SURPLUS. OVERALL BALANCE FOR 1973 WOULD BE SMALL SURPLUS.

5. EDR COMMITTEE EXPRESSED DOUBTS ABOUT OPTIMISTIC FRENCH VIEWS RE THEIR PROSPECTS IN 1974. THEY AGREED THAT ALTHOUGH THERE WERE LARGE NUMBER UNCERTAINTIES BECAUSE OF OIL SITUATION, ALL FACTORS SEEMED POINT TO SLOWER GROWTH RATE AND HIGHER PRICES THAN FRENCH ANTICIPATED. COMMITTEE EXPRESSED CONCERN THAT WAGES WERE UNDER NO CONTROL AND THAT NO STEPS BEING TAKEN DO THIS. THEY ALSO DOUBTED TAT CURRENT FRENCH MONETARY POLICY WOULD HAVE DESIRED IMPACT OVER SHORT-TERM, AND THOUGHT NEWLY-PROCLAIMED FISCAL MEASURES WOULD MERELY REMOVE DEMAND PRESSURE FROM FIRST TO SECOND HALF 1974.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 21 DEC 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: garlanwa
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973OECDP32661
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: n/a
From: OECD PARIS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19731210/aaaaahjz.tel
Line Count: 140
Locator: TEXT ON-LINE
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: EDR (73) 24
Review Action: RELEASED, APPROVED
Review Authority: garlanwa
Review Comment: n/a
Review Content Flags:
Review Date: 28 AUG 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <28-Aug-2001 by garlanwa>; APPROVED <29-Nov-2001 by garlanwa>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: EDRC REVIEW OF FRENCH ECONOMY
TAGS: ECON, EFIN, OECD
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005